

VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

May 22, 2003

Members present:

ROGER DUMAS, Chairperson, VSEA member (term expiring September, 2003)
WARREN WHITNEY, Vice-Chairperson, VSEA member (term expiring September, 2004)
ROBERT HOOPER, VSEA member (term expiring September 2004)
ROBERT HOFMANN, Commissioner of Finance & Management
GORDON MACARTHUR, Retired Vermont State Employees' Association
JEB SPAULDING, VT State Treasurer
RICHARD JOHANNESSEN, Governor's appointee
DAVID HERLIHY, REPRESENTING Commissioner of Personnel, Cynthia LaWare

Also attending:

Richard Charleton, Ellen Griggs and Doug Moseley, New England Pension Consultants (NEPC)
Marie Panciocco, Benefitscorp
Cynthia Webster, Retirement Operations Director

The Chairperson, Roger Dumas, called the board meeting to order at 8:10 a.m. on Thursday, May 22, 2003.

ITEM 1: Approval of the Minutes of February 19, 2003 and April 10, 2003

On a motion by Mr. MacArthur seconded by Mr. Whitney, the Board unanimously voted to approve the minutes of February 19, 2003, and April 10, 2003 with amendments.

ITEM 2: NEPC Quarterly Review

Mr. Charleton provided an overview of the market environment. Ms. Griggs provided an overview of the structure and returns of the portfolio as compared to other public funds. Ms. Moseley review the individual manager returns.

Ms. Griggs distributed information relating to the asset allocation mixes for board review. Discussion ensued regarding the feasibility of conducting a search for a separate high yield manager. NEPC recommended Mix B on the chart. Discussion was deferred until after lunch.

Mr. Hoffman left the meeting.

The total portfolio at March 31, 2003, was \$831,323. The fund returns were (1.4%) versus the policy index of (2.2%) over the last quarter, (9.7%) versus (11.1%) over the last year, (6.2%) versus (6.8%) over the last three years, and (.7%) versus (.6%) over the last five years.

ITEM 3: Manager Presentations

Rothschild Asset Management – presenter: Radey Johnson. Assets under management at March 31, 2003, in a small cap equity value portfolio were \$41,934,707, representing 5% of the total portfolio. Returns were (1.4%) versus the Russell 2500 Value Benchmark at (4.8%) for the first quarter, (12.7%) versus (20.9%) over the last year, and 9.9% versus 2.8% over the last three years.

Delaware Investment Advisors – presenters: Tim Connors, Perry Keck and George Deming. Assets under management at March 31, 2003, in a large cap value equity portfolio were \$87,195,335, representing 10.5% of the total portfolio. Returns were (5.1%) versus the Russell 1000 Value index of (4.9%), (22.6%) versus the index of (22.8%) over the last year, and (2.2%) versus (6.9%) over the last three years.

UBS Global Asset Management – presenters: Steve Wilde and Shawn Lytle. Assets under management at March 31, 2003, in an international equity portfolio were \$71,528,643, representing 8.6% of the total portfolio. Returns for the last quarter were (8.3%) versus the EAFE Benchmark of (8.2%), (21.3%) versus (23.2%) over the last year, and (12.9%) versus (19.5%) over the last three years.

David Herlihy left the meeting.

ITEM 4: HLM and Deutsche Bank Fee Proposals

On motion of Mr. Spaulding seconded by Mr. Hooper, the board unanimously voted to adopt the fee proposals as submitted.

ITEM 5: Continuation of Asset Allocation Discussion – NEPC

Mr. Hooper moved and Mr. Whitney seconded the motion to adopt Mix B as recommended by NEPC as the long term target from this day forward with the understanding that no new asset classes will be funded until specifically authorized by the board. Considerable discussion ensued. NEPC confirmed they would never move into a new asset class without educating the board and receiving explicit permission to do so.

David Herlihy re-joined the meeting.

On motion of Mr. Hooper seconded by Mr. Whitney, it was unanimously voted to call the question.

The motion was put to a vote. Mr Johannesen voted nay; all others voted aye. Motion carried.

Mr. Spaulding moved and Mr. Whitney seconded the motion to authorize NEPC to initiate a high yield bond manager search for the targeted 5% of total portfolio. Mr. Dumas voted nay; all others voted aye. Motion carried. The board will interview finalists for a high yield manager at the August investment meeting.

ITEM 6: Treasurer's Report

Mr. Spaulding reviewed the agenda items addressed at the Joint Board meeting on the afternoon of June 5, 2003.

Mr. Spaulding summarized the current status pending legislation. S.85 has passed and is awaiting the Governor's signature. Language allowing firefighters to elect to participate in the group C plan has been included in the Appropriations Bill.

Mr. Spaulding reported that a limited service position has been requested and approved to assist with the retirement system upgrade.

David Minot has been hired to replace Marie Duquette as the Director of Investment Services. He will begin employment on June 2, 2003.

Jeff Wilson, Deputy State Treasurer, has stated he will be leaving this summer. Mr. Spaulding is currently seeking a replacement.

ITEM 7: Benefitscorp Quarterly Review

Ms. Panciocco reported that electronic quarterly reports are now available on a participant level. **On motion of Mr. Spaulding seconded by Mr. MacArthur, the board unanimously voted to authorize Benefitscorp to allow the participants to receive their quarterly statements via the mail or electronically, and to amend the contract and/or service agreement accordingly.**

Municipalities are requesting to allow an employer match to the 457 plan. Benefitscorp was requested to prepare a proposal for board consideration.

ITEM 8: Final Reconciliation of Citistreet's Fees

Ms. Duquette distributed a revenue sharing analysis from Citistreet for board review.

ITEM 9: Board Travel and Conferences

NEPC will send a bill for board attendance at their annual conference, then deduct the amount from their fees.

On motion of Mr. MacArthur seconded by Mr. Whitney, it was unanimously voted to authorize up to two board members to attend the National Association of State Retirement Administrators (NASRA) conference.

On motion of Mr. MacArthur seconded by Mr. Whitney, it was unanimously voted to authorize up to two board members and one staff to attend the National Association of Governmental Defined Contribution Administrators (NAGDCA) conference.

On motion of Mr. Spaulding seconded by Mr. Whitney, it was unanimously voted to authorize up to two board members or staff to attend the National Pre-Retirement Education Association (NPEA) conference.

ITEM 10: Any Other Business to be Brought Before the Board

There next scheduled business meetings will be on July 10, 2003, and October 9, 2003.

On motion of Mr. Spaulding seconded by Mr. MacArthur, it was unanimously voted to adjourn at 4:15 p.m.

Respectfully submitted,

Cynthia L. Webster
Secretary to the Board